



Annexure to MFMA Circular No. 86

This Annexure to MFMA Circular No. 86 provides further guidance to municipalities with regard to the preparation for the 2016/17 unspent conditional grant and roll-over process and should be referenced to previous annual budget circulars.

Criteria for the rollover of conditional grant funds

Section 22 of the 2016 Division of Revenue Act (DoRA) requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When applying to retain unspent conditional allocations committed to identifiable projects or requesting a rollover in terms of section 22(2) of the DoRA, municipalities must supply National Treasury with the following information:

1. A formal letter addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2016 DoRA. The letter must be signed by the accounting officer;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence that work on each of the projects has commenced, as applicable to the specific rollover(s):
 - a. Proof that the project tender was published and the period for tender submissions closed before 31 March;
 - b. Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or
 - c. Proof of a project tender, appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project.
4. A progress report (also in percentages) on the state of implementation of each of the projects (attach implementation plan);
5. The amount of funds committed to each project, and the conditional allocation from which the funds come;
6. Reasons why the grants were not fully spent in the year that it was originally allocated as per the DoRA;
7. Municipalities must not include previous year's unspent conditional grants as a rollover request. Rollover of rollovers will not be considered;
8. An indication of the time-period within which the funds are to be spent; and
9. Proof that the Chief Financial Officer and Municipal Manager are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy.

If any of the above information is not provided or the application is received by National Treasury (IGR division) after 31 August 2017, the application will be declined.

In addition, National Treasury will also take into account the following information when assessing rollover applications, and reserves the right to decline an application if there is non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2016 DoRA, including the municipal manager and chief financial officer signing-off on the information sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements information to National Treasury by 31 August 2017;
3. Accurate disclosure of grant performance in the 2016/17 pre-audited Annual Financial Statements, (i.e. clear reflection of grant receipts and spending in the notes to the statements);
4. Under no circumstance will the National Treasury approve the entire allocation of the municipality. The municipality should have spent a minimum of 50 per cent of the allocation per programme;
5. Cash available in the bank (net position including short term investments) as at 30 June 2017 and in line with the cash flow statements to finance the roll-over request;
6. No approval will be granted for municipalities requesting roll over of the same grant for the 3rd consecutive time; and
7. Incorporation of the Appropriation Statement as discussed below.

When approving any rollover requests, National Treasury will use the latest conditional grant expenditure information available at the time, which in this instance is likely to be the disclosure of grant performance in the 2016/17 pre-audited Annual Financial Statements which must be concluded by 31 August 2017.

Similar to the above mentioned rollover process and in accordance with section 22(3)(b) of DoRA, provincial treasuries are encouraged to institute measures and criteria for the rollover of conditional grant funds that municipalities receive from provincial departments. Refer to MFMA Budget Circular No.51 for more information in this regard.

Unspent conditional grant funds for 2016/17

The process to ensure the return of unspent conditional grants for the 2016/17 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA circulars, the following practical arrangements will apply:

- Step 1: Municipalities must submit their June 2017 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers are the same.
- Step 2: When preparing the annual financial statements a municipality must determine the portion of each national conditional grant allocation that it received that remained unspent as at 30 June 2017. These amounts **MUST** exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been *reclaimed from SARS*, which must be disclosed separately.
- Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2016 DoRA that the funds are committed to identifiable projects or wants to propose an alternative payment method or schedule, the required information must be submitted to National Treasury by 31 August 2017.

National Treasury will not consider any rollover requests that are incomplete or that are received after this deadline.

- Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on the evidence that the funds are committed to identifiable projects by **16 October 2017** or whether it has agreed to any alternative payment arrangement or schedules.
- Step 5: A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment agreement with National Treasury to the National Revenue Fund by **1 November 2017**. Failure to return these unspent funds by this date will constitute financial misconduct in terms of section 34 of the DoRA.
- Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 1 November 2017, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's December 2017 equitable share allocation unless the municipality has agreed to an alternative payment arrangement or schedule.

All the calculations of the amounts to be surrendered to the National Revenue Fund will be audited by the Auditor-General.

Appropriation statement (Reconciliation: Budget and in-year performance)

In terms of GRAP 24 (Presentation of budget information in AFS) municipalities are required to present their original and adjusted budgets against the actual outcome in the annual financial statements; this is considered an appropriation statement. This statement is subject to auditing and accordingly supporting documentation would be required to substantiate the compilation of this statement. All municipalities were required to compile an appropriation statement with effect from 2015/16.

Some municipalities neglected to compile the appropriation as part of their 2015/16 AFS. National Treasury considers this non-compliance in a serious light and going forward the incorporation of an appropriation statement in the AFS will form part of the evaluation criteria in considering and approving conditional grant rollovers. In the absence of an appropriation statement National Treasury will not consider conditional grant roll over applications.

In addition to the requirements outlined in the previous MFMA Circulars regarding unspent conditional grants, municipalities must know that the National Treasury uses the pre-audited Annual Financial Statements (AFS) to determine the unspent conditional grants and make a decision. Therefore, there will not be a review of the unspent conditional grants once the audited AFS are available.

Following the determination of unspent conditional grants to be surrendered to the National Revenue Fund, municipalities may propose an alternative means acceptable to National Treasury by which the unspent allocations will be paid into the National Revenue Fund or to propose an alternative payment schedule (repayment arrangement) in terms of section 22 (5)(b) (ii) and (iii) of DoRA if it cannot withstand the impact of it being offset from their equitable share in one installment.

Municipalities who intend to exercise the above option must inform the National Treasury of such within 14 days of receipt of the letter informing them of the unspent conditional grants to be repaid into the National Revenue Fund. ***Requests for repayment arrangements following the lapse of the 14 days will not be considered.*** The repayment arrangement is limited to a maximum of three installments.

Reporting and accounting for municipal approved conditional grant roll-overs

Reporting on rollover approvals must be submitted to respective treasuries, national transferring officers and provincial departments responsible for monitoring the conditional grants.

A municipality must report separately on the spending of approved conditional grant roll overs. National Treasury will provide a separate reporting template to facilitate this. This template must be submitted together with the normal in-year template for reporting conditional grant spending for the year. The template is customised per municipality and must be requested by e-mail to lgdataqueries@treasury.gov.za.

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